

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 522 - SB 586

February 15, 2011

SUMMARY OF BILL: Prohibits future increases to the state sales tax rate levied on the retail sale of food and food ingredients, beginning with FY11-12.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – For each 0.5 percent increase to the state sales tax rate levied on the retail sale of food and food ingredients that may occur in the absence of this bill, the state will forgo approximately \$43,034,600 and local governments will forgo approximately \$2,071,500.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-6-228(a), the current state sales tax rate levied on the retail sale of food and food ingredients is 5.5 percent.
- The fiscal impact of this bill is dependent upon enactment of future legislation, in the absence of this bill, which would increase the state sales tax rate levied on food and food ingredients. Any additional state sales tax revenue that would be collected as a result of a higher future rate is considered forgone as a result of this bill.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments are apportioned a 4.5925 percent share of all state sales tax revenue as state-shared sales tax revenue. As a result, local governments would forgo incremental apportionments which would be attributable to additional collections occurring as the result of a future higher rate.
- The extent of forgone revenue to state and local governments is dependent upon multiple unknown factors such as the extent of any future tax rate increase in the absence of this bill and the timing of any such future tax rate increase.
- According to the Department of Revenue, state sales tax collections derived from food and food ingredients in FY09-10 was approximately \$476,900,000.
- The change in quantity demanded for food and food ingredients is relatively inelastic to changes in price occurring as a result of tax rate changes.
- Two percent annual natural growth in taxable food sales.
- Under current law, state sales tax collections derived from food and food ingredients for FY11-12 is estimated to be \$496,166,800 (\$476,900,000 x 102.0% x 102.0%).
- Increasing the state sales tax rate by 0.5 percent is estimated to generate an additional \$45,106,100 $[(\$496,166,800 / 5.5\%) \times 0.5\%]$ in state sales tax revenue.

- For each 0.5 percent rate increase, forgone local revenue is estimated to be \$2,071,500 (\$45,106,100 x 4.5925%); and forgone state revenue is estimated to be \$43,034,600 (\$45,106,100 - \$2,071,500).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc